

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Rochester Hills Public Library</u>	County Oakland
Audit Date December 31, 2004	Opinion Date January 28, 2005	Date Accountant Report Submitted To State: April 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Rochester Hills Public Library

Financial Report
with Supplemental Information
December 31, 2004

Rochester Hills Public Library

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Independent Auditor's Report

To the Board of Directors
Rochester Hills Public Library

We have audited the accompanying basic financial statements of the Rochester Hills Public Library as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Rochester Hills Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rochester Hills Public Library as of December 31, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

January 28, 2005

Rochester Hills Public Library

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2004

	Balance Sheet - Modified Accrual Basis	Adjustments (Note 8)	Statement of Net Assets - Full Accrual Basis
Assets			
Cash and cash equivalents (Note 2)	\$ 787,803	\$ -	\$ 787,803
Investments (Note 2)	3,717,427	-	3,717,427
Other assets	2,450	-	2,450
Taxes receivable	1,744,761	-	1,744,761
Fixed assets (Note 3)	-	11,621,390	11,621,390
Total assets	\$ 6,252,441	11,621,390	17,873,831
Liabilities			
Accounts payable	\$ 154,996	-	154,996
Deferred revenue (Note 1)	2,937,410	-	2,937,410
Accrued liabilities	116,102	-	116,102
Long term liabilities (Note 4):			
Accumulated employee benefits, due within one year	-	74,783	74,783
Accumulated employee benefits, due in more than one year	-	54,468	54,468
Total liabilities	3,208,508	129,251	3,337,759
Fund Balance/Net Assets			
Fund balance:			
Reserved for donor restricted purpose	153,272	(153,272)	-
Unreserved:			
Designated for equipment purchases	203,200	(203,200)	-
Designated for capital improvements	2,624,751	(2,624,751)	-
Undesignated	62,710	(62,710)	-
Total fund balance	3,043,933	(3,043,933)	-
Total liabilities and fund balance	\$ 6,252,441		
Net assets:			
Invested in capital assets - Net of related debt		11,621,390	11,621,390
Restricted for donor restricted purpose		153,272	153,272
Unrestricted		2,761,410	2,761,410
Total net assets		\$ 14,536,072	\$ 14,536,072

Rochester Hills Public Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2004

	Revenue and Expenditures - Modified Accrual Basis	Adjustments (Note 8)	Statement of Activities - Full Accrual Basis
Revenue			
Property taxes	\$ 2,387,792	\$ -	\$ 2,387,792
Service contracts	1,055,380	-	1,055,380
State aid	80,598	-	80,598
Fines and fees	305,336	-	305,336
Investment income (Note 2)	88,134	-	88,134
Gifts	117,205	-	117,205
Other income	21,550	-	21,550
Total revenue	4,055,995	-	4,055,995
Expenditures			
Personnel	2,595,693	2,105	2,597,798
Library materials	593,541	(29,133)	564,408
Facilities and equipment	729,487	103,425	832,912
Professional and contractual services	135,125	-	135,125
Library programs	44,663	-	44,663
Other operating expenditures	174,106	-	174,106
Total expenditures	4,272,615	76,397	4,349,012
Excess of Expenditures Over Revenue	(216,620)	(76,397)	(293,017)
Fund Balance/Net Assets - Beginning of year, as restated (Note 1)	3,260,553	11,568,536	14,829,089
Fund Balance/Net Assets - End of year	\$ 3,043,933	\$ 11,492,139	\$ 14,536,072

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note I - Nature of Organization and Summary of Significant Accounting Policies

The Rochester Hills Public Library (the "Library") serves the city of Rochester Hills, the city of Rochester, and Oakland Township. The Library is governed by a six-member Board of Trustees. The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Rochester Hills Public Library:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Library has implemented the provisions of this statement effective January 1, 2004. The most significant change is the inclusion of financial information on a full accrual basis of accounting. Certain other items were revised as the result of the implementation of GASB Statement 34. As part of the implementation, fund equity of the Library has been restated as follows:

Total fund equity - December 31, 2003, as previously reported	\$ 14,014,805
Capital assets are not recorded under modified accrual accounting	(10,747,346)
Effect of restating deferred revenue for contracted library services	(184,052)
Effect of restating deferred revenue for contributions	50,000
Effect of restating accrued employee absences under GASB Interpretation No. 6	<u>127,146</u>
Fund balance - December 31, 2003, as restated	<u>\$ 3,260,553</u>

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Rochester Hills Public Library

**Notes to Financial Statements
December 31, 2004**

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Library's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and the traditional fund financial statements (reporting the Library's General Fund).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Library has one fund, the General Fund, which is the Library's primary operating fund. It accounts for all financial resources of the Library.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2004 ad valorem tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations. The Library's 2005 ad valorem tax is levied and collectible on December 1, 2004, but will not be recognized as revenue until 2005. As of December 31, 2004, the billings related to the 2005 levy are recorded as deferred revenue.

The 2003 taxable valuation of the city of Rochester Hills totaled \$3.040 billion, on which ad valorem taxes levied consisted of 0.8003 mills for operating purposes. This resulted in \$2,387,792 for operations.

Service Contract Revenue

The Library also services the city of Rochester and Oakland Township under separate operating agreements. The fee for this service is produced by each municipality levying one mill, annually adjusted for the Headlee Amendment.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and cash equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are recorded at fair value, based on quoted market prices.

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	5-8 years
Library equipment	5-10 years
Bookmobile	10 years
Library materials	4 years

Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the fiscal year, all deferred revenue of the Library was unearned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Property taxes - City of Rochester Hills	\$ 2,560,321
Service contract - City of Rochester	223,513
Service contract - Oakland Township	<u>153,576</u>
Total deferred revenue	<u>\$ 2,937,410</u>

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes library units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has approved 17 banks for the deposit of library funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and such obligations, bonds, and securities as permitted by the statutes of the State of Michigan.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

The Library's deposits and investments at December 31, 2004 are included on the balance sheet under the following classifications:

	Cash and Cash Equivalents	Investments	Total
Deposits	\$ 787,803	\$ 829,843	\$ 1,617,646
Investments	-	2,887,584	2,887,584
Total	<u>\$ 787,803</u>	<u>\$ 3,717,427</u>	<u>\$ 4,505,230</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,629,527. Of that amount, approximately \$197,000 was covered by federal depository insurance and the balance was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Library is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. The Library's investments are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2004. Risk Category I includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Library or its agent

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the Library's name

At year end, the Library's investment balances were categorized as follows:

	Reported Amount (Fair Value)
U.S. government securities (Category 3)	\$ 2,831,143
Mutual funds	<u>56,441</u>
Total investments	<u>\$ 2,887,584</u>

The mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Library believes that the investments in the funds comply with the investment authority noted above. The mutual fund investments are registered with the SEC.

Included in the Library's investments at December 31, 2004 is approximately \$2,015,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

At December 31, 2004, the fair value and cumulative unrealized gain (loss) on the Library's investments were as follows:

	Original Cost/ Donated Value	Fair Value	Unrealized Gain/(Loss)
U.S. government securities	\$ 2,856,884	\$ 2,831,143	\$ (25,741)
Mutual funds	<u>50,000</u>	<u>56,441</u>	<u>6,441</u>
Total	<u>\$ 2,906,884</u>	<u>\$ 2,887,584</u>	<u>\$ (19,300)</u>

Investment earnings resulted from the following:

Unrealized gain on investments - Beginning of year	\$ 21,785
Unrealized loss on investments - End of year	<u>(19,300)</u>
Current year change in market value	(41,085)
Other investment income - Interest, dividends, and realized gains	<u>129,219</u>
Total investment earnings	<u>\$ 88,134</u>

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 3 - Capital Assets

Capital asset activity of the Library was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Capital assets not being depreciated -				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Capital assets being depreciated:				
Building and improvements	10,113,548	23,066	-	10,136,614
Furniture and fixtures	214,147	9,090	-	223,237
Library equipment	1,076,461	42,307	814	1,117,954
Bookmobile	-	205,847	-	205,847
Library materials	4,034,011	450,267	357,180	4,127,098
Subtotal	15,438,167	730,577	357,994	15,810,750
Accumulated depreciation	(6,742,485)	(804,869)	(357,994)	(7,189,360)
Net capital assets being depreciated	8,695,682	(74,292)	-	8,621,390
Net capital assets	<u>\$ 11,695,682</u>	<u>\$ (74,292)</u>	<u>\$ -</u>	<u>\$ 11,621,390</u>

Depreciation expense was \$804,869 for the year ended December 31, 2004.

On August 15, 1990, the Library entered into an agreement with the Rochester Downtown Development Authority (the "Authority") whereby the Authority agreed to provide \$2,500,000 to assist the Library in the acquisition of the land where the existing library building is located. The Library and the Authority have agreed that if at any time within 30 years of the date of this agreement this land is sold, then the Library will return to the Authority its pro rata share of the appraised value of the land only. The Authority's share of the appraised value is 83.3 percent. At this time, the Library does not intend to sell the current library facility.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 4 - Long-term Debt

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accumulated employee benefits	\$ 127,146	\$ 2,105	\$ -	\$ 129,251	\$ 74,783

The accumulated employee benefits represent the estimated liability to be paid employees under the Library's sick and vacation pay policy. Under the Library's policy, employees earn sick and vacation time based on time of service with the Library.

Note 5 - Budget Information

The annual budget is prepared by the Library Director and adopted by the Library Board and subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with generally accepted accounting principles.

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget can be found in the supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Library incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
Periodicals and databases	\$ 80,000	\$ 87,043
Audiovisual	99,500	101,251
Telephone	24,000	26,171
Equipment and capital improvements	263,000	294,821
Insurance	23,000	26,823
Professional and contractual services	100,100	135,125
Staff development	20,000	20,703
Miscellaneous	10,000	22,602
Bookmobile operations	3,500	4,045

Overall, Library financial operations exceeded budgeted expectations by \$62,080.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for all such claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Defined Contribution Retirement Plan

The Library provides pension benefits through a money purchase plan, created in accordance with IRC Section 401(a), to all of its salaried employees who have worked in excess of one year. As established by the plan, the Library contributes 10 percent of gross earnings, which resulted in employer contributions of \$144,256. Participants may also make voluntary contributions limited to 100 percent of their annual contribution or \$40,000.

Rochester Hills Public Library

Notes to Financial Statements December 31, 2004

Note 8 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 3,043,933
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	11,621,390
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Compensated absences are included as a liability	<u>(129,251)</u>
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Net Assets of General Fund - Full Accrual Basis	<u>\$ 14,536,072</u>
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Net Change in Fund Balances - Modified Accrual Basis	\$ (216,620)
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	450,267
Capital outlay	280,310
Depreciation	<u>(804,869)</u>

Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	<u>(2,105)</u>
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Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ (293,017)</u>
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Required Supplemental Information

Rochester Hills Public Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 2,444,900	\$ 2,444,900	\$ 2,387,792	\$ (57,108)
Service contracts:				
City of Rochester	448,100	456,600	454,458	(2,142)
Oakland Township	614,300	614,300	600,922	(13,378)
Total service contracts	1,062,400	1,070,900	1,055,380	(15,520)
State aid	40,300	80,400	80,598	198
Fines and fees:				
Penals	120,000	132,000	132,382	382
Fines and fees	140,000	160,000	172,954	12,954
Total fines and fees	260,000	292,000	305,336	13,336
Investment income	75,000	117,400	88,134	(29,266)
Gifts:				
Designated gifts - General	25,000	6,000	6,003	3
Designated gifts - Friends	105,000	89,000	83,200	(5,800)
Undesignated gifts - General	25,000	25,000	28,002	3,002
Total gifts	155,000	120,000	117,205	(2,795)
Other income:				
Miscellaneous	14,000	14,000	17,750	3,750
Grants	-	3,500	3,800	300
Total other income	14,000	17,500	21,550	4,050
Total revenue	4,051,600	4,143,100	4,055,995	(87,105)

Rochester Hills Public Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2004

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Expenditures				
Personnel:				
Payroll	\$ 2,133,300	\$ 2,134,700	\$ 2,093,233	\$ 41,467
Employee benefits	617,500	594,300	502,460	91,840
Total personnel	2,750,800	2,729,000	2,595,693	133,307
Library materials:				
Books	453,500	449,500	405,247	44,253
Periodicals and databases	80,000	80,000	87,043	(7,043)
Audiovisual	95,500	99,500	101,251	(1,751)
Total library materials	629,000	629,000	593,541	35,459
Facilities and equipment:				
Telephone	21,000	24,000	26,171	(2,171)
Equipment and capital improvements	265,000	263,000	294,821	(31,821)
Maintenance	208,300	220,200	214,230	5,970
Utilities	164,000	193,000	167,442	25,558
Insurance	23,000	23,000	26,823	(3,823)
Total facilities and equipment	681,300	723,200	729,487	(6,287)
Professional and contractual services	95,000	100,100	135,125	(35,025)
Library programs	40,000	50,000	44,663	5,337
Other operating expenditures:				
Promotion and printing	70,000	70,000	51,702	18,298
Staff development	20,000	20,000	20,703	(703)
Supplies	61,000	61,000	58,778	2,222
Mileage	6,000	6,000	4,379	1,621
Computer software	16,000	20,000	11,897	8,103
Bookmobile operations	3,500	3,500	4,045	(545)
Miscellaneous	10,000	10,000	22,602	(12,602)
Total other operating expenditures	186,500	190,500	174,106	16,394
Total expenditures	4,382,600	4,421,800	4,272,615	149,185
Excess of Expenditures Over Revenue	(331,000)	(278,700)	(216,620)	62,080
Fund Balance - Beginning of year	3,260,553	3,260,553	3,260,553	-
Fund Balance - End of year	\$ 2,929,553	\$ 2,981,853	\$ 3,043,933	\$ 62,080

January 28, 2005

Finance Committee of
the Board of Directors
Rochester Hills Public Library
500 Olde Towne Road
Rochester Hills, MI 48307

Dear Committee Members:

We have recently completed our audit of the financial statements for the Rochester Hills Public Library for the year ended December 31, 2004. As a result of our audit, we offer the following observations and comments for your consideration. Please note that the majority of our suggestions are of an administrative nature. Normally, we would make minor administrative suggestions directly to the Library Director, but as this is our first audit for the Library, we wanted the Board of Directors to be aware of all of our recommendations.

- We recommend counting the tills every evening or the following morning. Accounting personnel should then reconcile the tills to the register tape.
- Consider consolidating the various petty cash funds into one fund that is safeguarded by the Bookkeeper.
- We noted that the proper review and a timely reconciliation is being performed for the investment activity; however the investment activity was not recorded in the general ledger for the Merrill Lynch Parker, Merrill Lynch Plant Fund, and Vanguard accounts. Your controls and recordkeeping would be enhanced if each account was recorded on the Library's general ledger and activity posted on a monthly basis. We also recommend that additional documentation noting the purchase and sale of investments be maintained.
- We recommend that the Library Director review the bank reconciliations after the Bookkeeper prepares them. Both the Library Director and the Bookkeeper should sign off on each reconciliation to note the completion of the review. This review should occur on a monthly basis.
- We noted that the monthly credit card receipt statements are not reconciled to the Library's internal records. This reconciliation should be performed monthly.
- We recommend that new vendors are approved by the Library Director before the new vendor is created within the Library's computer system.
- We recommend the Library Director review the manual journal entries made by the bookkeeper on a monthly basis. Also a formal journal entry form should be completed and maintained for each manual entry. Both the Library Director and Bookkeeper would sign off on each form.

- Currently, a fixed asset listing is not maintained by the Library. We are aware that the Library is looking into the purchase of an upgraded or potentially completely new accounting package. Should the Library upgrade the accounting package, it would be appropriate to include the fixed asset module in consideration of the recently adopted GASB Statement 34.
- We recommend the budget for the service contract revenue from the City of Rochester and Oakland Township be recognized evenly over the duration of the contract year. Currently, the budget is based on the cash flow of the annual receipts.
- Consider using an automated method to replace the manual employee timesheets. Current technology such as card readers can streamline the clerical aspects of timekeeping. The current system requires considerable effort to record and then summarize hours prior to the preparation of payroll records. Newer systems can eliminate or substantially reduce the amount of clerical time in accumulating such information.
- Consider maintaining additional documentation within the employee personnel files including superceded payroll elections.

We would like to thank the Library personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver



Brian J. Camiller